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RJR

R.J.Reynolds
Industries, Inc.

1972
Annual Report

RJR

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Consumer Products

R.J.Reynolds Tobacco Company

Cigarettes – filter, non-filter, menthol
Smoking Tobaccos – pipe tobaccos ranging from non-aromatic to full-aromatic, cigarette cut tobaccos, granulated tobaccos
Cigars – filter-tipped little cigars
Chewing Tobaccos – plug and twist tobaccos

RJR Foods, Inc.

Hawaiian Punch – canned and frozen fruit punches
Chun King – canned and frozen Oriental foods
Patio – frozen Mexican foods
My*T*Fine – packaged puddings and pie fillings
College Inn – chicken and other food specialties
Brer Rabbit – molasses and syrups
Vermont Maid – maple syrup
Filler Snacks – corn- and meat-base snacks
Davis – canned baking powder

RJR Archer, Inc.

Gift Decorations – foil and paper wraps, bows, gift tags, ribbons
Foils – household and institutional foils
Florist Materials – foils and ribbons

First of the new SL-7's arrives at Sea-Land's terminal facilities in Elizabeth, N. J.

Consolidated Summary

(Dollar Amounts in Thousands Except Share Statistics)

	1972	1971*
Net sales and revenues	$2,957,630	$2,788,980
Net earnings	237,471	225,928
Per common share	5.32	5.10
Per common share—assuming full dilution	4.74	4.54
Net earnings as a percentage of net sales and revenues	8.03%	8.10%
Dividends on Preferred Stock	$ 16,580	$ 17,346
Dividends on Common Stock	103,724	98,290
Per share of Common Stock	2.496	2.40
Average number of common shares outstanding	41,547,108	40,907,239
Average number of common shares outstanding—assuming full dilution	50,140,565	49,780,139
Capital expenditures	$ 252,885	$ 166,499
Depreciation, depletion and amortization	70,471	68,439
Total assets	$2,365,945	$2,066,177
Current assets	1,166,268	1,070,132
Current liabilities	480,766	320,613
Net current assets—working capital	685,502	749,519
Net property, plant and equipment	942,203	758,013
Long-term debt (less current maturities)	363,874	394,756
Book value of Preferred Stock	75,750	80,199
Book value of Common Stock	1,306,670	1,172,610
Number of stockholders at year-end	120,321	126,790
Number of employees at year-end	30,042	29,484

*Reclassified for comparative purposes. See Note A of Notes to Consolidated Financial Statements.

To the Stockholders

Your Company's consolidated net sales and revenues and net earnings for 1972 were at the highest levels in its history.

The improvement in net sales and revenues reflected increases in all of the Company's present businesses: tobacco, transportation, food, aluminum products and packaging, and international petroleum. Tobacco sales increased 4% as a result of higher domestic unit sales and a stronger showing by the Company's international tobacco businesses. Transportation revenues increased 25%, principally as a result of rate increases in certain trade routes, additional vessel capacity, and because 1971 results were depressed by longshoremen's strikes. If sales of a business disposed of in 1971 are excluded from the consolidated 1971 figures, aggregate sales of the Company's other businesses show a 7% increase over 1971.

Consolidated earnings from operations declined 2% from 1971. Tobacco earnings from operations decreased 6%, reflecting rising operating costs. Earnings from transportation operations increased markedly over 1971. Transportation results for both 1972 and 1971 were depressed by labor disruptions, uncertain world trade conditions, and continuing competitive and operating cost pressures. Earnings from operations of the Company's other businesses increased 16% over 1971.

In connection with our continuing efforts to acquire United States Lines, Inc., we are presently studying the February 12, 1973, report of the Federal Maritime Commission. As the document was received shortly before this report to the stockholders had to go to press, we have not completed our evaluation of the conditions set forth by the Commission. Details are set forth in Note D of Notes to Consolidated Financial Statements.

Your Company, together with others in the tobacco industry, is continuing to support, through unrestricted grants, the scientific research that still is vitally needed to learn the true facts about smoking and health. A noteworthy example was the industry's $2.8 million grant in December to the Harvard Medical School for a five-year investigation of any specific effects cigarette smoke may have in the development of lung and heart diseases. The tobacco industry is now providing more financial support for smoking-and-health research than all of the private health agencies combined.

Excessive taxation of cigarettes at state and local levels remains one of the major obstacles for the industry. This punitive taxation is grossly unfair in the proportion of the burden it places on persons of low income. Forty-nine of the fifty state legislatures will be in session during 1973, and a number of the tax proposals to be considered will no doubt include an increase in cigarette levies. As we have done in the past, we suggest that you can greatly assist the Company by expressing to your state and local representatives your opposition to any increase in cigarette taxes.

As you may be aware, considerable controversy arose regarding the broadcast advertising of the Company's **Winchester** little cigars—our first and highly successful entry into the little cigar market. While the

J. Paul Sticht
Chairman of the Executive Committee

Colin Stokes
President

David S. Peoples
Vice Chairman

A. H. Galloway
Chairman, Board of Directors

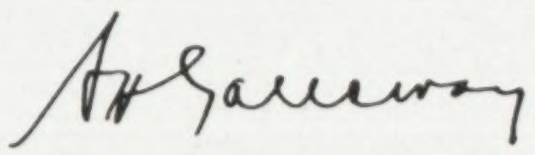
product met all the legal requirements to be classified as a cigar, Congressional critics and anti-smoking zealots charged vociferously that **Winchester** advertisements on television constituted a violation of the ban prohibiting the advertising of cigarettes on broadcast media. After careful consideration we concluded that the controversy had reached such proportions that it was in the best interests of the Company, however regrettably, to withdraw **Winchester** advertising from broadcast media.

On February 12, 1973, the U. S. Government announced a devaluation of the U. S. Dollar versus other major currencies which will increase the U. S. Dollar cost of the containership construction program. The Company believes the devaluation will have no material adverse effect on future operating results since increases in the U. S. Dollar equivalent of the Company's foreign earnings, and gains from contracts for future delivery of foreign currencies, will at least partially offset the effect of the devaluation.

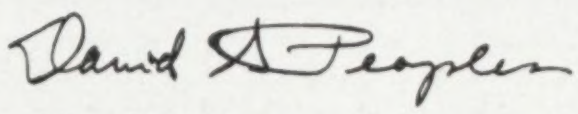
U. S.-based companies, such as R. J. Reynolds Industries, which are doing business internationally are facing increasing problems. Already confronted by the nationalist fervor of various countries aiming to expropriate industries within their borders, and by the emergence of area trading blocs like the European Common Market, many of these companies now are facing critics here at home, in and out of Congress, who seem determined to destroy their international operations. They are charged with exporting jobs, capital, and technology, to the detriment of America's economy. In our own case, certainly, the Company's activities abroad have contributed positively toward the nation's balance of payments, and have not resulted in any exportation of jobs. The protectionist attitudes that are being reflected in Congress are based on false premises, faulty economics, and a lack of understanding of international trade, and are not in the best interests of our country. The United States must realistically face the fact that it can never be self-sufficient in terms of all of its raw material and energy requirements. In essence, our country needs to encourage both more exports *and* more foreign investment earnings in order to be in better position to pay for such vitally necessary imports.

We would not want to close this letter without recognizing the dedication and loyalty of the thousands of Company employees whose efforts made possible the results and progress of the past year. Nor would we end without expressing to you, the stockholders, our appreciation for your confidence and support.

Respectfully submitted for the Board of Directors.



Chairman, Board of Directors



Vice Chairman

February 16, 1973

Financial Review

Summary

Net sales and revenues for the year 1972 reached a record $2,957,630,000, 6% over 1971. Net earnings also increased to a record high of $237,471,000, 5% over 1971. Net earnings per common share increased from $5.10 to $5.32 in 1972, on a greater number of common shares outstanding.

As explained in Note A of Notes to Consolidated Financial Statements, appropriate reclassifications have been made affecting 1971 accounts to reflect full consolidation of the Company's foreign operations.

When compared with 1971, the consolidated provision for 1972 income taxes was a smaller percentage of earnings before income taxes because of greater investment tax credits and lower foreign tax rates.

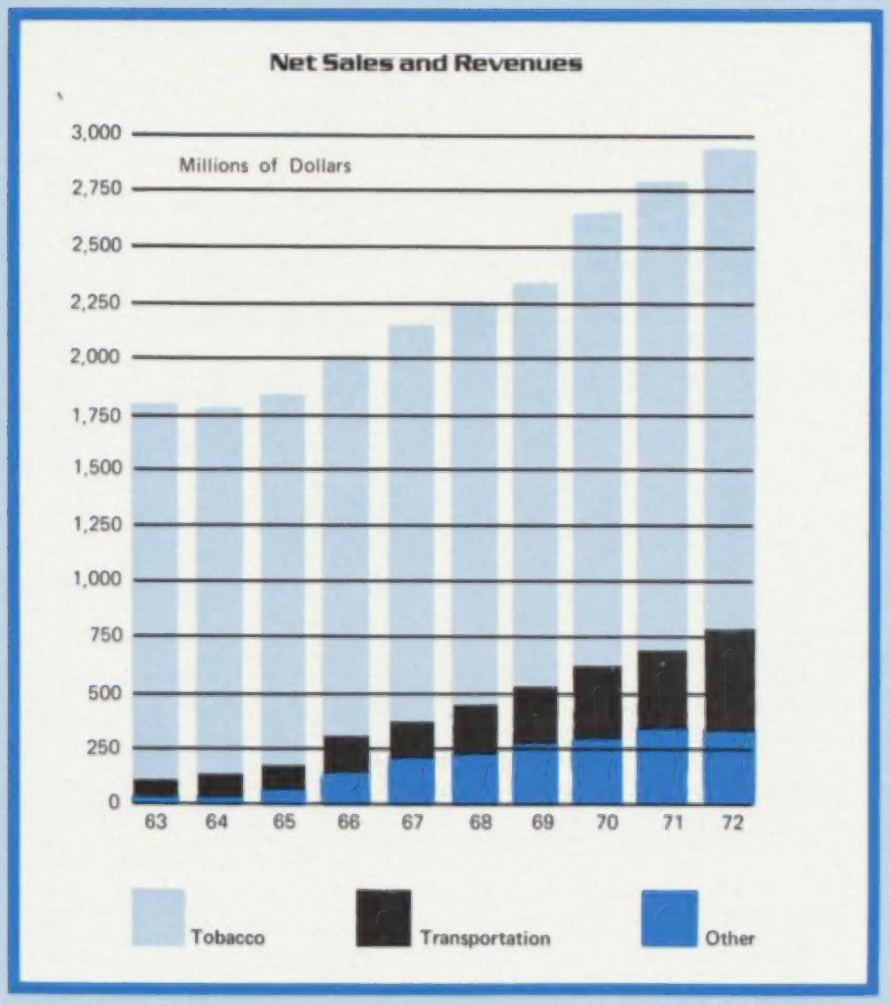
Net Sales and Revenues

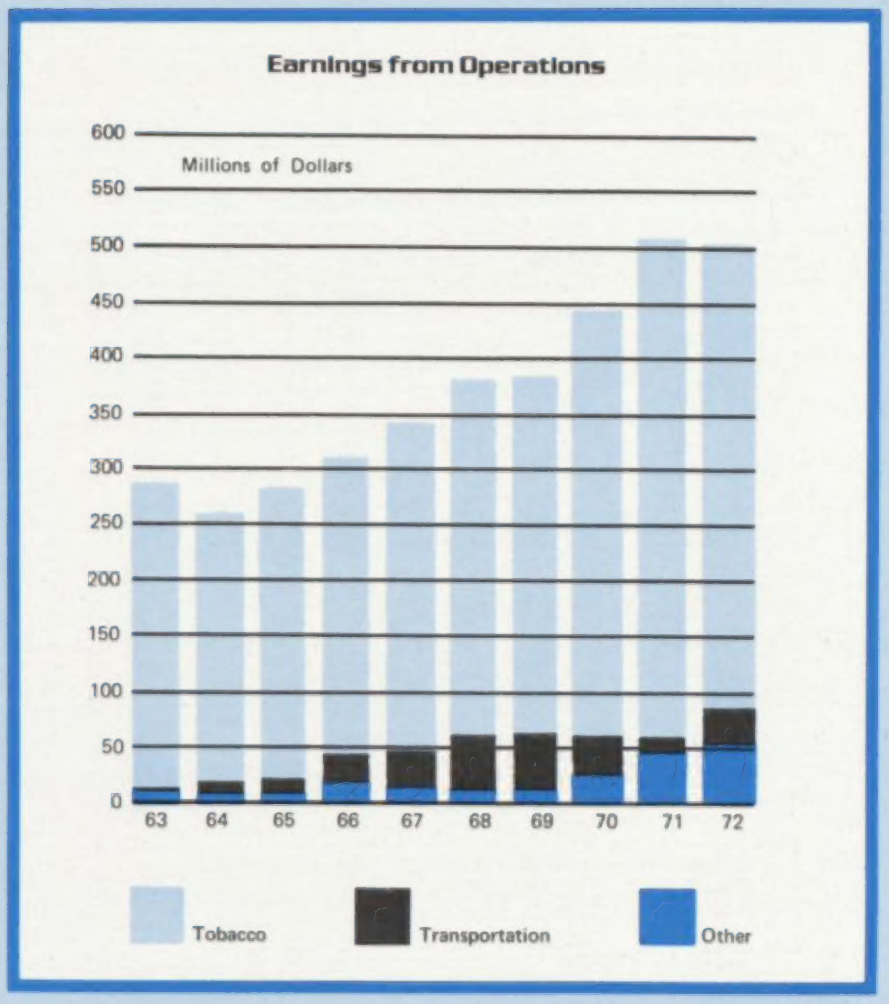
The improvement in consolidated net sales and revenues for the year reflected increases in all of the Company's present businesses. Tobacco sales (which included excise taxes of $885,318,000 in 1972 and $839,472,000 in 1971) increased 4% over 1971 as a result of higher domestic unit sales and a stronger showing by the Company's international tobacco businesses. Transportation revenues increased 25% principally as a result of rate increases in certain trade routes, additional vessel capacity, and the fact that 1971 results were depressed by longshoremen's strikes. If sales of a business disposed of in 1971 are excluded from the consolidated 1971 figures, aggregate sales of the Company's other businesses show a 7% increase over 1971.

NET SALES AND REVENUES
(Dollars in Thousands)

	1972	%	1971	%
Tobacco	$2,168,242	73.4	$2,084,938	74.8
Transportation	450,886	15.2	360,656	12.9
Other	338,502	11.4	343,386*	12.3
Consolidated	$2,957,630	100.0	$2,788,980	100.0

*Includes $27,388,000 of a business disposed of during 1971.





Earnings from Operations

Consolidated earnings from operations of $501,084,000 declined 2% from 1971. Tobacco earnings from operations decreased 6% in 1972 reflecting rising operating costs. A major factor in the increased operating costs was the 6% increase in leaf tobacco prices during the 1972 leaf-buying season. Since the Company values leaf tobacco inventories using the LIFO method, higher leaf prices have an immediate adverse effect on earnings.

Earnings from transportation operations increased markedly over 1971. Both 1972 and 1971 results were depressed by labor disruptions, uncertain world trade conditions and continuing competitive and operating cost pressures.

Earnings from operations of the Company's other businesses increased 16% over 1971.

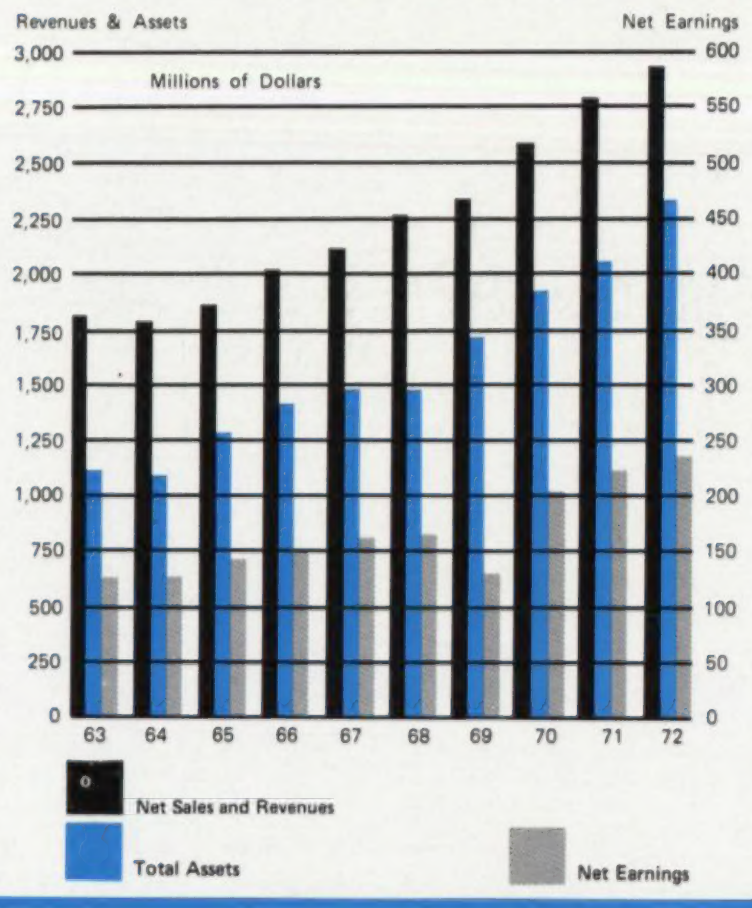
EARNINGS FROM OPERATIONS*
(Dollars in Thousands)

	1972	%	1971	%
Tobacco	$ 416,907	83.2	$ 445,423	87.5
Transportation	31,688	6.3	18,242	3.6
Other	52,489	10.5	45,131**	8.9
Consolidated	$ 501,084	100.0	$ 508,796	100.0

*Earnings before interest and debt expense, other income and expense, and provision for income taxes.

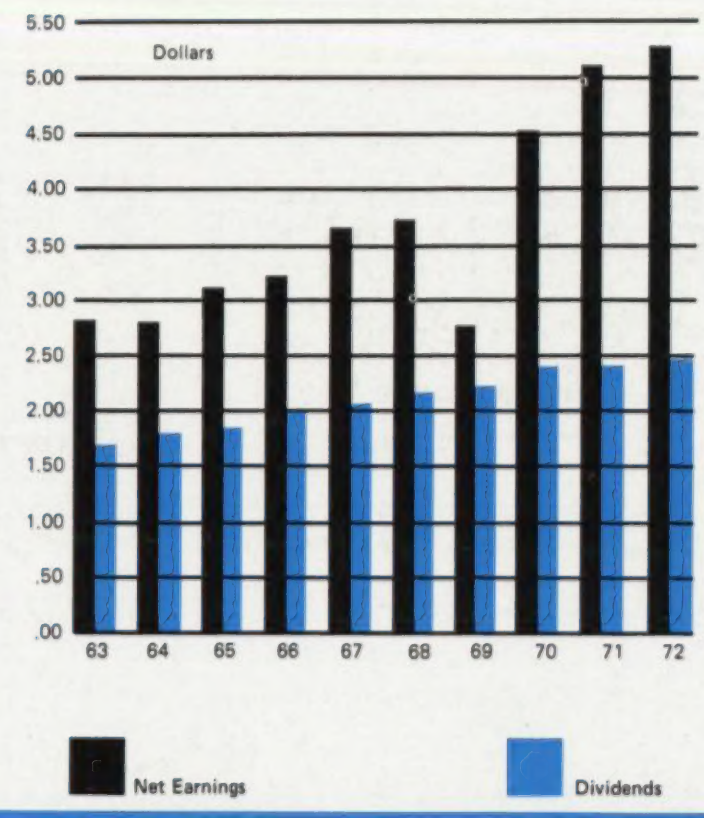
**Includes $316,000 of a business disposed of during 1971.

Net Sales and Revenues, Total Assets and Net Earnings

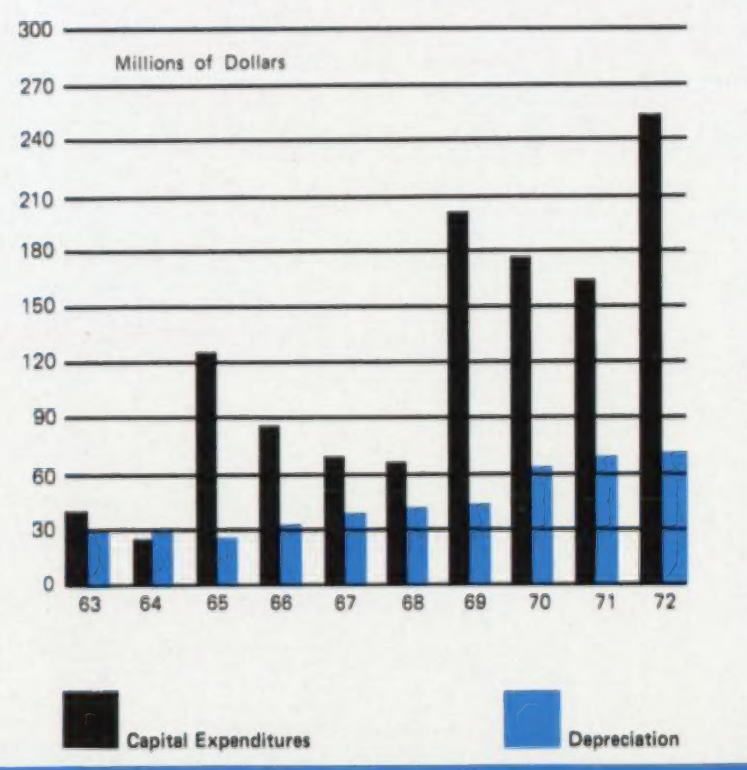


Net Earnings Per Common Share

Dividends Per Common Share

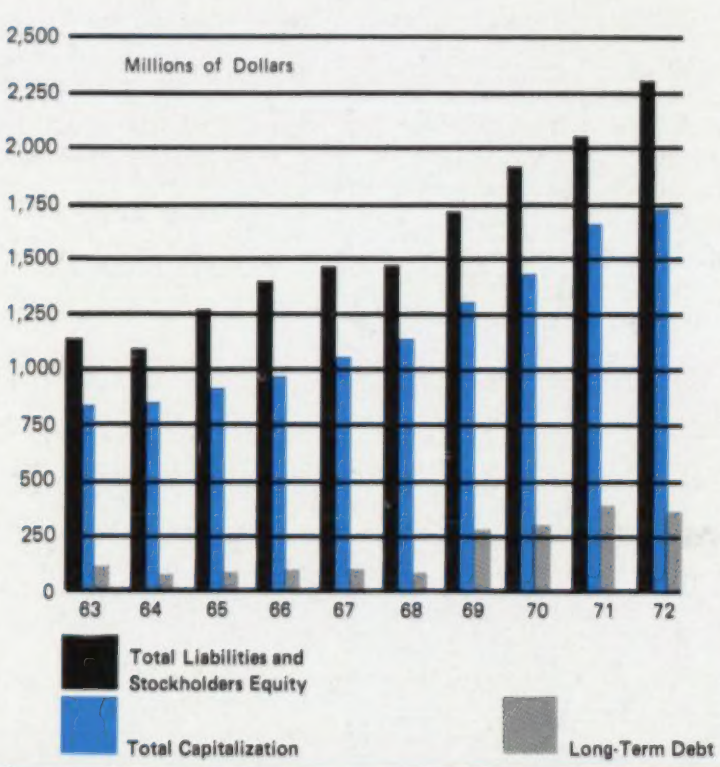


Capital Expenditures and Depreciation



Total Liabilities and Stockholders Equity

Total Capitalization and Long-Term Debt



Dividends

Aggregate dividends during 1972 on the Common and Preferred Stocks totaled $120,304,000, the highest amount in the Company's 73 years of consecutive dividends. In January, 1972, the Company increased its quarterly dividend on Common Stock to $.624 per share. In January, 1973, the Company increased its quarterly dividend on Common Stock to $.648 per share.

Debt Position

Long-term debt at year-end amounted to $364 million. Repayments of long-term debt in 1972 totaled $34 million. In addition, interim construction loans on the first two super containerships were replaced, on delivery of the vessels, by long-term ship mortgage bonds totaling $61 million. At December 31, 1972, construction loans on the six containerships still being built stood at $135 million. Plans call for an additional $45 million to be supplied on an interim basis by banks as construction progresses. It is anticipated that interim construction financing will be replaced with ship mortgage bonds issued as the vessels are delivered. Additional information concerning this program is contained in Note C of Notes to Consolidated Financial Statements.

Certain foreign subsidiaries of the Company had short-term borrowings outstanding at December 31, 1972 and 1971 of $12 million and $17 million, respectively, as reflected in the balance sheets. Domestic short-term borrowings were used infrequently during the year.

Capital Expenditures

Capital expenditures in 1972 were $253 million, compared to the 1971 total of $166 million. Of the 1972 expenditures, $227 million or 90% related to the acquisition and construction of vessels and purchases of associated equipment to expand Sea-Land's containership fleet. The Company also continued modernization of tobacco manufacturing, food processing and aluminum products and packaging facilities.

Capital expenditures in 1973 are currently estimated to reach $280 million, 84% of which will be outlays for the transportation business.

Ten Year Consolidated Financial Summary[1]

(Dollar Amounts in Thousands Except Share Statistics)

Year Ended December 31	1972	1971	1970
REVENUES, EARNINGS AND DIVIDENDS			
Net sales and revenues:			
Tobacco	$2,168,242	$2,084,938	$1,961,817
Transportation	450,886	360,656	374,906
Other	338,502	343,386	303,917
Total	$2,957,630	$2,788,980	$2,640,640
Earnings from operations:			
Tobacco	$ 416,907	$ 445,423	$ 382,551
Transportation	31,688	18,242	38,632
Other	52,489	45,131	25,331
Total	$ 501,084	$ 508,796	$ 446,514
Interest and debt expense	$ 29,588	$ 29,293	$ 30,914
Provision for income taxes	240,510	258,730	213,715
Net earnings	237,471	225,928	201,885
Dividends on Preferred Stocks	16,580	17,346	18,275
Dividends on Common Stock	103,724	98,290	96,584
FINANCIAL POSITION			
Working capital	685,502	749,519	593,599
Inventories	865,029	777,109	743,768
Total current assets	1,166,268	1,070,132	971,270
Net property, plant and equipment	942,203	758,013	690,768
Total assets	2,365,945	2,066,177	1,925,770
Notes payable	12,455	17,416	148,746
Total current liabilities	480,766	320,613	377,671
Long-term debt (less current maturities)	363,874	394,756	307,464
Book value of Preferred Stocks	75,750	80,199	85,783
Book value of Common Stock	1,306,670	1,172,610	1,041,004
OTHER INFORMATION			
Capital expenditures	252,885	166,499	177,537
Depreciation, depletion and amortization	70,471	68,439	62,275
Per common share:			
Earnings before extraordinary items	5.32	5.10	4.56
Net earnings	5.32	5.10	4.56
Per common share–assuming full dilution:			
Earnings before extraordinary items	4.74	4.54	4.10
Net earnings	4.74	4.54	4.10
Dividends per common share	2.496	2.40	2.40
Book value per common share	31.19	28.47	25.84
Average number of common shares outstanding	41,547,108	40,907,239	40,242,252
Average number of common shares outstanding–assuming full dilution	50,140,565	49,780,139	49,188,427
Number of stockholders at year-end	120,321	126,790	137,504

(1) Applicable amounts for years 1963 through 1971 have been reclassified to include the accounts of certain foreign businesses not fully consolidated prior to 1972 (See Note A of Notes to Consolidated Financial Statements).

(2) Net earnings for 1969 are after an extraordinary charge of $41,151,000 relating to the sale of a business.

1969	1968	1967	1966	1965	1964	1963
$1,810,720	$1,802,466	$1,759,243	$1,697,104	$1,659,961	$1,634,496	$1,697,917
280,334	226,383	180,496	147,464	101,782	94,158	75,699
262,447	229,911	216,233	168,961	92,134	42,040	39,553
$2,353,501	$2,258,760	$2,155,972	$2,013,529	$1,853,877	$1,770,694	$1,813,169
$ 319,746	$ 320,850	$ 300,533	$ 268,017	$ 261,873	$ 247,490	$ 275,194
55,853	50,523	33,315	24,312	12,448	9,316	3,477
12,551	13,345	14,668	17,919	8,765	8,657	9,538
$ 388,150	$ 384,718	$ 348,516	$ 310,248	$ 283,086	$ 265,463	$ 288,209
$ 23,092	$ 14,327	$ 16,104	$ 11,823	$ 7,108	$ 7,508	$ 10,458
191,283	195,767	161,485	145,623	136,812	129,404	148,840
131,154[2]	168,930	166,344	149,939	143,101	128,893	129,344
11,538	1,353	1,423	1,485	1,600	1,761	1,738
90,530	88,518	82,284	79,825	75,006	73,734	67,602
634,953	697,721	637,970	595,625	637,529	682,369	628,580
752,599	771,561	817,039	809,507	798,496	782,577	815,177
965,898	978,920	1,002,669	980,605	943,055	906,474	912,131
531,465	385,164	354,663	318,804	268,735	197,083	223,853
1,730,466	1,488,152	1,485,209	1,405,510	1,264,627	1,115,511	1,151,647
143,840	111,305	175,500	180,650	125,000	67,000	114,500
330,945	281,199	364,699	384,980	305,526	224,105	283,551
274,872	112,747	121,684	116,303	104,716	90,991	116,737
85,774	105,657	104,958	100,416	99,998	85,550	87,727
951,799	918,594	839,802	760,003	719,158	685,859	636,000
200,850	67,650	72,300	86,622	127,079	27,353	41,144
45,959	41,808	38,022	34,239	27,777	30,008	29,771
3.82	3.71	3.65	3.22	2.96	2.74	2.78
2.79	3.71	3.65	3.22	3.08	2.77	2.78
3.57	3.48	3.45	3.10	2.86	2.68	2.72
2.72	3.48	3.45	3.10	2.96	2.71	2.72
2.25	2.20	2.05	2.00	1.85	1.80	1.65
23.66	22.83	20.87	18.83	17.89	16.78	15.52
40,235,578	40,235,552	40,302,863	40,800,745	40,528,050	40,968,611	40,964,177
48,123,711	48,184,929	47,784,586	47,844,569	47,800,123	47,073,953	46,922,492
136,539	136,129	134,038	131,371	118,281	114,010	103,282

Consolidated Balance Sheets

December 31, 1972 and 1971
(Dollars in Thousands)

ASSETS	1972	1971 (Note A)
Current assets:		
Cash	$ 38,398	$ 35,590
Marketable securities (approximate market)	37,710	90,309
Accounts receivable (less allowances of $12,308 and $10,281, respectively)	217,379	157,600
Inventories	865,029	777,109
Prepaid expenses	7,752	9,524
Total current assets	1,166,268	1,070,132
Property, plant and equipment—at cost:		
Land and land improvements	15,595	15,783
Buildings and leasehold improvements	139,895	130,227
Machinery and equipment	286,048	268,753
Vessels, containers and other marine equipment	678,705	530,428
Petroleum producing properties	94,845	93,875
Construction-in-process	232,626	171,745
	1,447,714	1,210,811
Less allowances for depreciation, depletion and amortization	505,511	452,798
Net property, plant and equipment	942,203	758,013
Cost in excess of net assets of businesses acquired	163,465	159,502
Other assets and deferred charges	94,009	78,530
	$2,365,945	$2,066,177

See Notes to Consolidated Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1972	1971 (Note A)
Current liabilities:		
Notes payable	$ 12,455	$ 17,416
Accounts payable and accrued accounts	225,210	149,199
Current maturities of long-term debt	173,698	75,601
Income taxes accrued	69,403	78,397
Total current liabilities	480,766	320,613
Reserves and non-current liabilities	46,239	34,855
Deferred income taxes	92,646	63,144
Long-term debt (less current maturities)	363,874	394,756
Stockholders' equity:		
Preferred Stock—$2.25 Convertible Preferred Stock—without par value Authorized—7,222,084 shares in 1972; Issued—7,166,509 shares in 1972	75,750	80,199
Common Stock—Par $5 Authorized—60,000,000 shares; Issued—41,898,065 shares in 1972	209,490	205,931
Paid-in capital	40,566	27,232
Earnings retained	1,056,614	939,447
Total stockholders' equity	1,382,420	1,252,809
	$2,365,945	$2,066,177

See Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

For the Years Ended December 31, 1972 and 1971
(Dollars in Thousands)

	1972	1971 (Note A)
Net sales and revenues	$2,957,630	$2,788,980
Costs and expenses:		
Cost of products sold and operating expenses	2,118,433	1,986,617
Selling, advertising, administrative and general expenses	338,113	293,567
Earnings from operations	501,084	508,796
Interest and debt expense	29,588	29,293
Other (income) expense, net	(6,485)	(5,155)
Earnings before provision for income taxes	477,981	484,658
Provision for income taxes	240,510	258,730
Net earnings	$ 237,471	$ 225,928
Net earnings per common share	$5.32	$5.10
Net earnings per common share—assuming full dilution	4.74	4.54

Consolidated Statements of Earnings Retained

For the Years Ended December 31, 1972 and 1971
(Dollars in Thousands)

	1972	1971
Earnings retained at beginning of year	$ 939,447	$ 829,155
Add net earnings	237,471	225,928
	1,176,918	1,055,083
Deduct:		
Cash dividends:		
$2.25 Convertible Preferred Stock	16,580	17,346
Common Stock	103,724	98,290
Total cash dividends	120,304	115,636
Earnings retained at end of year	$1,056,614	$ 939,447

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31, 1972 and 1971
(Dollars in Thousands)

	1972	1971 (Note A)
Source of working capital:		
Net earnings	$237,471	$225,928
Add items not involving working capital in the current period:		
Depreciation, depletion and amortization	70,471	68,439
Deferred income taxes	29,502	14,582
Reserves and non-current liabilities	11,384	10,720
Total from operations	348,828	319,669
Proceeds from long-term debt (exclusive of vessel construction borrowings classified in current maturities)	61,409	176,552
Proceeds from issuance of Company's stocks	17,460	22,044
Disposals of property, plant and equipment	2,942	2,815
Net increase in working capital due to sale of a business	–	26,808
	430,639	547,888
Use of working capital:		
Capital expenditures	252,885	166,499
Cash dividends	120,304	115,636
Long-term debt becoming currently payable	92,291	89,260
Retirement of Preferred Stock upon conversion	5,016	6,314
Other, net	24,160	14,259
	494,656	391,968
Increase (decrease) in working capital	$(64,017)	$155,920
Analysis of changes in working capital:		
Increase (decrease) in current assets:		
Cash and marketable securities	$(49,791)	$ 64,796
Accounts receivable	59,779	(371)
Inventories	87,920	33,342
Prepaid expenses	(1,772)	1,095
Decrease (increase) in current liabilities:		
Notes payable	4,961	131,329
Accounts payable and accrued accounts	(76,011)	(18,380)
Current maturities of long-term debt	(98,097)	(42,485)
Income taxes accrued	8,994	(13,406)
Increase (decrease) in working capital	$(64,017)	$155,920

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE A – Summary of Significant Accounting Policies and Related Matters

The Company includes in its consolidated financial statements the accounts of the parent and all subsidiaries after eliminating intercompany accounts and transactions.

Prior to 1972 the Company fully included in its consolidated financial statements the accounts of only domestic and Canadian operations. Effective January 1, 1972, the Company adopted worldwide consolidation and the Company's financial statements for 1971 have been reclassified for comparative purposes to include fully those foreign operations which were not consolidated prior to 1972. Since the Company reported foreign operations on the equity basis prior to 1972, the reclassification did not affect previously reported earnings from operations, interest, other (income) expense, taxes on income, and net earnings. The Company considers worldwide consolidation appropriate in view of the increasingly international character of the Company's business.

Current assets (other than leaf tobacco inventories) and current liabilities denominated in foreign currencies were translated at year-end exchange rates; other assets and liabilities were translated at the prevailing rate when the asset was acquired or the liability incurred. Foreign currency revenues and expenses were translated at average exchange rates during the year, except that depreciation, depletion and amortization were translated at the exchange rates prevailing at the time the related assets were acquired. Unrealized losses resulting from foreign currency translation (other than losses related to interim foreign construction borrowings which are capitalized in the property accounts) are recognized in income to the extent they exceed unrealized gains.

The financial position of the Company's foreign operations at December 31, 1972 and 1971 and results for the years then ended were as follows:

	(Dollars in Thousands)	
	1972	1971
Assets	$222,248	$204,474
Liabilities	95,291	97,435
Net sales and revenues	344,584	282,488
Earnings from operations	46,257	36,620
Net earnings	12,690	2,527

In addition, the cost of vessels under construction in foreign shipyards net of related foreign liabilities amounted to $58,450,000 and $41,779,000 at December 31, 1972 and 1971, respectively.

Inventories, principally leaf tobacco, but including supplies and manufactured products, are valued at cost (substantially all on last-in, first-out basis). The current replacement cost of inventories at December 31, 1972 and 1971 was approximately $218 million and $175 million, respectively, greater than the value at which these inventories were carried on the balance sheet.

The Company depreciates assets used in the transportation and petroleum businesses using the straight-line method for book purposes and accelerated methods for income tax purposes. For all other assets, depreciation is determined using accelerated methods for the most part for both book and income tax purposes. Where different depreciation methods are used for book and income tax purposes, provision is made for deferred income taxes which may be payable in future years. (See Note G.)

The Company is capitalizing as vessel cost interim construction loan interest and commitment fees as well as foreign exchange losses on interim construction borrowings related to the containership construction program. (See Note C.)

The Company is not amortizing cost in excess of net assets of businesses acquired prior to November 1, 1970, since the Company believes no diminution in these amounts has occurred since the businesses were acquired.

Sales of products are recognized in income as customer shipments are made. Net sales include excise taxes on tobacco products of $885,318,000 in 1972 and $839,472,000 in 1971. The Company's transportation revenues and voyage expenses are generally recognized at commencement of the voyage.

Generally, the Company's policy is to expense costs as incurred and not to defer.

"Other (income) expense, net," includes income and expense of a financial nature, principally interest income.

NOTE B – Long-Term Debt

Long-term debt consists of the following:	(Dollars in Thousands) December 31, 1972 Due Within One Year	December 31, 1972 Due After One Year	December 31, 1971 Due Within One Year	December 31, 1971 Due After One Year
2½% Promissory Note, due October 1, 1972	$ –	$ –	$ 2,000	$ –
3% Debentures, due October 1, 1973 (Balance at December 31, 1971, reduced by $5,000,000 of such debentures held by the Company on that date for sinking fund requirements)	13,000	–	–	13,000
7% Subordinated Debentures, due June 1, 1989	–	15,849	–	15,849
7⅜% Debentures, due February 1, 2001	–	100,000	–	100,000
7⅞% Debentures, due September 1, 1994	–	100,000	–	100,000
8⅛% Notes, due September 1, 1974	–	50,000	–	50,000
Equipment obligations (6% to 9%), secured by liens on containers and equipment having a net book value of approximately $79,537,000, payable in monthly installments through 1978	12,845	25,714	20,823	38,587
7½% Ship Mortgage Bonds, payable in Deutschemarks, redeemable through semi-annual sinking fund payments through 1986	2,315	30,091	–	–
8½% Ship Mortgage Bonds, payable in Dutch Guilders, redeemable through semi-annual sinking fund payments through 1980(1)	3,551	24,856	–	–
Vessel construction loans from various banks in West Germany and The Netherlands, payable in currency of those countries, at rates varying from 8% to 8¾%	135,475(2)	–	44,131	51,180
Vessel mortgage notes payable in quarterly installments through March 31, 1976 with interest at the prime commercial rate plus ½%	5,710	12,160	5,710	17,870
Other indebtedness	802	5,204	2,937	8,270
	$173,698	$363,874	$ 75,601	$394,756

Payment schedule of debt due after one year:

Due in:	
1974	$ 70,977
1975	24,655
1976	19,514
1977	13,589
1978 and later	235,139
	$363,874

(1) The bonds are subject to an annual interest subsidy of 2% payable by the Dutch government.

(2) Vessel construction loans (secured by construction mortgages or by assignment to the lenders of the Company's interest in the vessels) become due upon delivery of the vessels. Vessel construction loans are shown due in 1973, although substantially all of these borrowings are expected to be refinanced with long-term ship mortgage bonds when they become due. See Note C.

NOTE C – Commitments and Contingencies

Leases and charters for vessels and related equipment and facilities are used extensively in connection with the transportation business. Charters for vessels generally have initial periods of 10 years with renewal periods of up to 30 additional years. Leases for other major transportation equipment and facilities generally have terms ranging from 5 to 20 years. Lease and charter expenses together with miscellaneous rent expense related to the Company's tobacco and other businesses, amounted to $59 million in 1972 and $52 million in 1971, and are estimated to be $70 million in 1973. Many of the Company's rental and lease agreements are cancellable, some with penalties.

The Company is constructing six super containerships for which interim financing in the amount of $181 million (at December 31, 1972 exchange rates) is being provided by banks in West Germany and The Netherlands. Such interim financing is expected to be replaced in the most part with long-term foreign financing as the six vessels are completed. The summary below shows the estimated total cost of the six vessels and estimated payments for the planned long-term bank financing.

(Dollars in Thousands)

	Project Cost (Six Vessels)	Expended Through December 31,1972	Remaining Commitments December 31, 1972
Bank Financing	$180,903	$135,475	$ 45,428
From Internal Funds	125,724	58,450	67,274
	$306,627	$193,925	$112,702

Bank Financing Payment Schedule
(Dollars in Thousands)

1973	$ 4,012
1974	15,925
1975	15,925
1976	15,925
1977	15,925
1978 through 1988	113,191
	$180,903

On February 12, 1973, the U. S. Government announced a devaluation of the U. S. Dollar versus other major currencies which will increase the U. S. Dollar cost of the containership construction program. The Company believes the devaluation will have no material adverse effect on future operating results since increases in the U. S. Dollar equivalent of the Company's foreign earnings, and gains from contracts for future delivery of foreign currencies, will at least partially offset the effect of the devaluation.

The Company had various other capital spending commitments of approximately $100 million at December 31, 1972.

In an action begun in May, 1969 and pending as a class action in the United States District Court for the District of Delaware, damages are sought by former stockholders of McLean Industries, Inc. from McLean, its directors, certain of its stockholders and R. J. Reynolds Tobacco Company arising from alleged misrepresentations and omissions in the McLean proxy material distributed in connection with the merger of McLean into Reynolds. In October, 1971 the District Court granted partial summary judgment on the issue of liability against McLean, certain McLean directors, and against Reynolds as successor in interest to McLean. The issue of damages, if any, has not yet been determined. In the opinion of counsel for Reynolds, who express no opinion with respect to other defendants, the determination of this suit should not result in any material liability on the part of Reynolds.

The Company or its subsidiaries are defendants in certain litigation other than that referred to in this Note and Note D below which in the aggregate is not expected to have any material adverse effect on the Company's financial statements.

NOTE D – Proposed Acquisition of United States Lines

In October, 1969, Sea-Land Service, Inc. and United States Lines, Inc. entered into a Time Charter and an Agreement of Lease and Sublease under which Sea-Land proposed to charter from United States Lines 16 containerships and to lease related equipment for a period of 20 years with an option to purchase at the end of the period. In November, 1969, American Export Lines, Inc. filed an antitrust suit in the United States District Court for the Southern District of New York seeking a preliminary as well as a permanent injunction against consummation of the charter and equipment lease, seeking an order that R. J. Reynolds Tobacco Company, a subsidiary of the Company, be required to divest itself of McLean Industries, Inc., the parent of Sea-Land, and that Walter Kidde & Company, Inc. be required to divest itself of United States Lines, and asking for treble damages. The request for preliminary injunction was withdrawn in December, 1969, and, by stipulation, the entire case was stayed pending a decision by the Federal Maritime Commission in the proceedings then pending for approval of the proposed charter and equipment lease. In the opinion of counsel, this suit is without merit as to Reynolds Tobacco, McLean and Sea-Land.

On November 9, 1970, an agreement was entered into under which Reynolds Tobacco would acquire all of the Common Stock of United States Lines for a $65 million promissory note payable to Kidde. The note, due no later than November 9, 1976, will bear interest from November 9, 1970, at an annual rate of 8% plus interest at the rate of 6% per annum on deferred installments of interest. Applications for approval of the agreement were filed with the Federal Maritime Commission and the Interstate Commerce Commission. If the necessary approvals are not obtained or are obtained upon terms or conditions unacceptable to Reynolds Tobacco or if the consummation of the transaction is barred by a court order which has become final, Reynolds Tobacco has undertaken under a supplemental agreement with Kidde to produce equivalent consideration for Kidde within 24 months of any disapproval or approval upon such unacceptable terms or conditions or the entry of such final order, and in any event no later than November 9, 1976, and under such undertaking United States Lines would be sold or disposed of otherwise for the account of Reynolds Tobacco. The acquisition agreement modifies the proposed charter and equipment lease agreement referred to above and provides for termination thereof in the event the proposed acquisition is not approved or is approved upon terms or conditions unacceptable to Reynolds Tobacco.

In December, 1970, the Department of Justice filed an antitrust suit in the United States District Court for the District of New Jersey seeking an injunction prohibiting the proposed acquisition and an order rescinding the aforesaid supplemental agreement. The Court denied the request of the Federal Maritime Commission for a stay of proceedings in the suit and held that the Commission does not have jurisdiction to approve the proposed acquisition. The Court entered an order prohibiting consummation of the acquisition and of the supplemental agreement pending further order of the Court. In August, 1971, a petition was filed by the Company asking the U. S. Supreme Court to review the lower Court's holding. The Supreme Court has taken no action on the petition, but on December 11, 1972, it agreed to review a decision in a case in which Reynolds Tobacco is not a party in which some aspects of the Commission's jurisdiction over acquisitions are in issue.

On February 12, 1973, the Federal Maritime Commission issued a report setting forth its approval, subject to certain conditions, of the proposed acquisition of United States Lines, and asserting jurisdiction over and disapproving the supplemental agreement. The conditions contained in the report include, among others, the requirement that United States Lines be operated as an independent carrier in all respects in competition with Sea-Land; that financial support be furnished by the Company to United States Lines; that there be restrictions on future offshore construction, conversion and chartering of vessels by either line; and that there be continuing surveillance by the Commission of the Company's compliance with the conditions of approval.

The Company has not completed its evaluation of the Commission's report and, therefore, has not determined whether the conditions contained therein are acceptable to the Company. The Commission's decision and report are subject to court review.

Hearings before the Interstate Commerce Commission in proceedings for approval of the proposed acquisition were held in August, 1971, but to date no decision has been handed down by the Hearing Examiner.

Since the Company cannot own or operate United States Lines without all required Government approvals, the proposed acquisition is not reflected in the Company's consolidated financial statements, and the 1972 operating results of United States Lines cannot be made available to the Company or be included in the Company's consolidated financial statements.

The Company believes the outcome of the foregoing matters should have no material adverse effect on the Company's financial statements.

NOTE E– Capital Changes

The following changes in the Company's capital accounts have occurred during the two years ended December 31, 1972:

	Shares	Dollars (In Thousands)
$2.25 Convertible Preferred Stock – Without Par Value ($10.57 per share stated value)		
Balance at beginning of 1971	8,115,685	$ 85,783
Sales under substitute stock options during 1971	69,075	730
Shares converted into Common Stock of the Company during 1971	(597,363)	(6,314)
Balance, December 31, 1971	7,587,397	80,199
Sales under substitute stock options during 1972	53,650	567
Shares converted into Common Stock of the Company during 1972	(474,538)	(5,016)
Balance, December 31, 1972	7,166,509	$ 75,750
Common Stock – Par $5		
Balance at beginning of 1971	40,290,220	$201,451
Shares issued during 1971 upon conversion of the Company's $2.25 Convertible Preferred Stock	896,040	4,480
Balance, December 31, 1971	41,186,260	205,931
Shares issued during 1972 upon conversion of the Company's $2.25 Convertible Preferred Stock	711,805	3,559
Balance, December 31, 1972	41,898,065	$209,490

	(Dollars in Thousands)	
	1972	1971
Paid-in Capital		
Balance at beginning of year	$27,232	$10,398
Proceeds ($22 per share) from conversion of the $2.25 Convertible Preferred Stock and the stated value ($10.57 per share) of the converted preferred shares less par value ($5.00 per share) of the common shares issued during the year	11,896	14,976
Proceeds from exercise of substitute stock options to purchase $2.25 Convertible Preferred Stock less the stated value of the shares issued during the year	1,438	1,858
Balance at end of year	$40,566	$27,232

NOTE F – Capital Stock Redemption and Conversion Provisions and Substitute Stock Options

Each share of the $2.25 Convertible Preferred Stock is convertible into 1.5 shares of the Company's Common Stock on surrender of the preferred share and payment of $22 in cash. The Company may redeem the Convertible Preferred Stock after June 30, 1979, at $50 per share plus accrued dividends to the redemption date. The aggregate redemption value of shares outstanding at December 31, 1972, was $358,325,000. In the event of involuntary liquidation, holders of $2.25 Convertible Preferred Stock are entitled to $10.57 per share plus accrued dividends. Of the authorized but unissued common shares, 10,819,701 are reserved for conversion of 7,166,509 shares of $2.25 Convertible Preferred Stock issued and 46,625 of such shares issuable upon exercise of substitute stock options.

Substitute stock options for shares of $2.25 Convertible Preferred Stock were issued in accordance with the terms of the merger agreement with McLean Industries, Inc., on May 13, 1969. These substitute options expire at various dates to January 7, 1974. Substitute stock option issue prices and activity during 1971 and 1972 are shown below:

	Shares		
Option price per share	$37.25	$42.50	Total
1971			
Balance at beginning of 1971	166,850	7,300	174,150
Cancelled	4,550	–	4,550
Exercised	66,175	2,900	69,075
Balance, December 31, 1971	96,125	4,400	100,525
1972			
Cancelled	250	–	250
Exercised	52,400	1,250	53,650
Balance, December 31, 1972	43,475	3,150	46,625

NOTE G – Provision for Income Taxes

When compared with 1971, the consolidated provision for 1972 income taxes was a smaller percentage of earnings before income taxes because of greater investment tax credits and lower foreign tax rates.

Provision for income taxes includes current and deferred taxes in the following amounts:

	(Dollars in Thousands)	
	1972	1971
Current	$211,008	$244,148
Deferred	29,502	14,582
	$240,510	$258,730

The current tax provisions have been reduced by investment tax credits amounting to $10,072,000 in 1972 and $1,109,000 in 1971. Such credits are used to reduce the current provision for income taxes in the year the credits first become available and are not deferred.

No provision has been made for U. S. income taxes that may be payable upon remittance of earnings retained abroad by foreign subsidiaries, since any such taxes that might be due would be offset in the most part by foreign tax credits.

Deferred income taxes result principally from differences between book and tax accounting for depreciation, vessel charter payments, and construction loan interest and commitment fees related to the containership construction program. For book purposes, charter costs are expensed on a straight-line basis over the estimated vessel service life (generally 15 years). For tax purposes, vessel charter payments are deducted in accordance with charter agreements which generally provide for an initial 10-year period and renewals thereafter at reduced rates. The difference between charter costs for book and tax purposes is included in deferred charges on the balance sheet.

There are a number of issues pending as a result of Internal Revenue Service audits of certain prior years. The principal issue concerns the last-in, first-out (LIFO) method of pricing inventories which may affect the carrying value of the Company's inventories and reported net earnings for the years 1961 and later. The outcome of these issues is indeterminable at this time.

NOTE H – Pension Plans

The Company has several pension plans covering substantially all employees. The total expense for these plans for 1972 was $15,332,000 compared with $10,866,000 for 1971. The increase in expense in1972 is primarily attributable to amendments to certain plans effective at the beginning of the year which increased benefits to retiring employees. Substantially all of these plans are funded under the aggregate cost method, and the Company's policy with respect to these plans is to fund pension costs accrued. The total amount of assets of the Company's plans exceeded, in the aggregate, the actuarially computed value of vested benefits according to the most recent actuarial valuations. In addition, payments are made pursuant to various plans under terms of collective bargaining agreements and administered by labor unions.

NOTE I – Net Earnings Per Common Share–Assuming Full Dilution

Net earnings per common share assuming full dilution are calculated using the treasury stock method for determining fully diluted shares. Under this method, it is assumed that all shares of $2.25 Convertible Preferred Stock outstanding during the year (plus shares of $2.25 Convertible Preferred Stock which would have been issued assuming exercise of substitute options) were converted into Common Stock and the proceeds used to purchase treasury common shares at the higher of the average daily price or year-end closing price of the Common Stock. Under these assumptions there would have been 50,140,565 and 49,780,139 average common shares outstanding during 1972 and 1971, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

ERNST & ERNST

Fourth & Main Streets
Winston-Salem, N. C.

R. J. Reynolds Industries, Inc.
Its Directors and Stockholders

We have examined the consolidated financial statements of R. J. Reynolds Industries, Inc. and subsidiaries for the two years ended December 31, 1972. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of earnings, earnings retained, and changes in financial position present fairly the consolidated financial position of R. J. Reynolds Industries, Inc. and subsidiaries at December 31, 1972 and 1971, and the consolidated results of their operations, changes in financial position and changes in stockholders' equity for each of the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 13, 1973

Ernst & Ernst

R. J. Reynolds Tobacco Company continued to be the industry leader in 1972 with record cigarette sales, both domestic and from its international tobacco operations.

The company accounted for nearly one-third of all domestic cigarette sales and had three of the nation's six best-selling brands. It also ended the year with the top-selling little cigar, the No. 1 smoking tobacco, and the leading plug chewing tobacco.

Winston continued to be the nation's No. 1 cigarette, accounting for nearly one of every six cigarettes sold, and showed solid growth for the year. Sales of **Salem**, the company's major menthol brand, were also up, although it slipped in the overall ranking from fourth to fifth.

The combined sales of **Camel** Filter and **Camel** Regular placed the brand in sixth position among the top-sellers. While the regular non-filter category is continuing its slow decline, **Camel** Filter grew at a rate greater than the overall cigarette market.

In the low "tar" and nicotine category, the company continued to have two important brands. **Vantage**, which tobacco industry analyst John C. Maxwell called "one of the most promising of the newer cigarette brands" in his latest report, increased its volume significantly, while **Doral** declined slightly.

Winston Super King and **Salem** Super King showed good sales gains in the fast-growing 100mm category, and **Salem** Super King remains the top-selling extra-long menthol cigarette.

The company's first entry in the cigar market, **Winchester** little cigars, proved so successful in test markets that it was placed in national distribution in September. Since its debut in test areas in late 1971, **Winchester** has quickly become the largest-selling brand in the growing little cigar category.

Before **Winchester** was placed on the market, the company voluntarily submitted it to the Internal Revenue Service, the government agency responsible for the classification of tobacco products for tax purposes, to make certain it met all the criteria established for little cigars. After **Winchester** entered the test markets, anti-smoking groups charged that advertisements for the product should not be allowed to appear on television because they were a violation of the ban on broadcast advertising of cigarettes. **Winchester** was then thoroughly investigated by the Justice Department, which verified, as had the Internal Revenue Service, that the product was indeed a little cigar and subject only to those restrictions placed upon cigars.

The development and marketing of

William S. Smith, Chairman Wm. D. Hobbs, President
R. J. Reynolds Tobacco Company, Winston-Salem, North Carolina

TOBACCO

R. J. Reynolds Tobacco Company is the nation's leading manufacturer and exporter of cigarettes, including the popular **Winston, Salem, Camel, Doral,** and **Vantage** brands. The company's newest tobacco product, **Winchester** little cigars, is also its first cigar product. Other Reynolds tobacco products are smoking tobaccos, led by the country's best-selling brand, **Prince Albert**, and plug chewing tobaccos, including the nation's sales leader, **Days Work**.

Winchester little cigars was not a devious plot to circumvent the broadcast ban. It does represent the development of a product—little cigars—which the company thinks offers an opportunity to share in a market in which the company has not heretofore participated. This is now a growing market which indicates the public's desire.

Prince Albert remained the nation's leading smoking tobacco, but **Carter Hall** and **Madeira Gold** did not perform as well as expected. The overall smoking tobacco market continued to decrease.

Apple Pipe Tobacco, an entry in the aromatic smoking tobacco category, was placed in test market in September and at year-end was performing well.

Days Work continued as the leading brand in the plug tobacco market, with **Apple Sun Cured** in the No. 2 position. The total plug tobacco market, however, is declining.

Since the broadcast ban became effective in 1971, the company has been using a number of techniques to keep its products and brand names before the buying public. These include more inventive outdoor and print media advertising, promotional activities such as sweepstakes, and special events sponsorship. During 1972 the company continued to refine these programs, bringing to them increased sophistication and maturity.

Winston increased its involvement with the NASCAR racing program and rodeo. **Salem** and **Winston** continued their joint sponsorship of bowling programs with three major tournaments and a perfect game "300" sweepstakes. **Doral** continued its efforts to reach the millions of people now participating in skiing through the Doral-NASTAR Handicap Improvement Award program for recreational skiers.

The Camel GT Challenge, a series of road races sanctioned by the International Motor Sports Association, had a successful inaugural year. The program will be expanded during 1973 to include more events.

Advertising expenditures, which declined industry-wide during 1971 (the first year during which cigarettes were prohibited from advertising on broadcast media), were increased during 1972 as competition intensified and companies made broader use of special events and other advertising media to promote their brands.

In December, the company and others in the tobacco industry extended their support of smoking-and-health scientific research with a $2.8 million grant to the Harvard Medical School. The grant is to be used for a five-year investigation of any specific effects cigarette smoke may have in the development of lung and heart diseases. Today, the tobacco industry is providing more financial support for smoking-and-health research than all of the private health agencies combined.

The company also continued its grants to seven Southeastern universities with agricultural programs in tobacco-related areas. In the 10 years the company has participated in this program, it has furnished more than $1 million to research projects at these institutions.

Reynolds, along with the other members of the tobacco industry, was very active during 1972 in its support of the Tobacco Tax Council, Inc., a national organization of tobacco growers, manufacturers, wholesalers, and retailers, which has been working in opposition to punitive cigarette taxation on every level. Although only four states and the District of Columbia enacted tax increases during 1972, cigarette taxation will remain one of the major obstacles for the tobacco industry in 1973 and in years to come. In the past, enormous pressure for additional state tax revenue has existed in the year immediately following an election, and during 1973, 49 of the 50 legislatures will be in session. Undoubtedly, a number of the tax proposals considered will include an increase in cigarette levies.

Since 1964, cigarette taxes have doubled and today the average retail price of a pack of cigarettes is one-half taxes, making it one of the most highly taxed consumer products in the nation. It is a fact that when taxes climb to the exorbitant levels already reached in several states, legal sales drop because consumers will not or cannot pay the unreasonable rates. Additionally, when taxes become unreasonable, the profit potential in black market cigarettes becomes so great that organized crime rings often move into the picture, smuggling untaxed cigarettes which cost the states millions in tax revenue. Where these rings operate, they often cause severe increases in general criminal activity.

These facts and other information about the potential harm of exorbitant cigarette taxation are being carried before legislators by the Tax Council. The company believes this message should be carefully weighed by the lawmakers before they enact any such tax increase. Stockholders can aid in this effort by explaining to their representatives the unfairness of cigarette taxation.

INTERNATIONAL

Reynolds' international tobacco operations continued to grow as overseas sales increased, and the company remained the nation's largest exporter of cigarettes.

The new manufacturing facilities at Dagmersellen, Switzerland, and Trier, West Germany, performed well during their first year of operation. The Dagmersellen plant produces **Camel, Camel** Filter, **Reyno (Salem)**, and **Winston** for the European market, and the Trier plant makes **Camel, Camel** Filter, **Reyno, Overstoltz**, a popular German brand, and **Denver**, the company's new entry in the German market.

As a result of Reynolds' continuing

search for new opportunities in international trade, a letter of intent has been signed with the present owners of Industria Java, an Indonesian cigarette manufacturing company located in Djakarta, looking forward to a partnership interest with the Indonesian company.

The company's brands are now sold in more than 100 countries.

R. J. REYNOLDS TOBACCO INTERNATIONAL, S.A.
Geneva, Switzerland
JACQUES E. BORIN, President

HAUS NEUERBURG G.m.b.H.
Cologne, West Germany
JÜRGEN HANSEN, General Manager

REYNOLDS CIGARETTE CORPORATION
Dagmersellen, Switzerland
L. DELACRETAZ, Manager

R. J. REYNOLDS TOBACCO (HONG KONG), LTD.
Hong Kong
L. W. PULLEN, Managing Director

THEODORUS NIEMEYER, N.V. (Licensee)
Groningen, Holland

AUSTRIA TABAKWERKE, A.G. (Licensee)
Vienna, Austria

SYLVANA TOBACCO CORPORATION (Licensee)
Manila, Philippines

TABACALERA NACIONAL, S.A. (Licensee)
Lima, Peru

CARIBBEAN-CANADIAN-MEXICAN DIVISION
Winston-Salem, North Carolina
DAVID R. BLANCO, Managing Director

R. J. REYNOLDS TOBACCO COMPANY
San Juan, Puerto Rico
P. K. McKNIGHT, President

FABRICA de CIGARROS BALOYAN, S.A.
Tijuana, Mexico
B. T. TROY, President

GLENN TOBACCO COMPANY
Athens, Greece
WILLIAM K. GREER, Vice President and General Manager

CONTAINERIZED FREIGHT TRANSPORTATION

Sea-Land Service, Inc., provides containerized freight transportation serving 99 port terminals in 37 countries via 51 direct, line-haul containerships and 19 relay vessels. Sea-Land's more than 54,000 computer-controlled containers provide protection for the shipper's cargo; they are designed to take advantage of intermodal transportation combining the flexibility of over-the-road trucking or rail transit, with the efficiency and low cost of ocean shipping.

New and expanded terminal facilities, new equipment, and the introduction of the first two SL-7 class vessels during 1972 helped Sea-Land Service, Inc. strengthen its superior service to the shipping public.

In late summer, the first two of the eight SL-7's being built for the company went into transatlantic service between the U. S. East Coast and major North European ports. The first of the new cargo liners to cross the Atlantic did it in record time, making the crossing in 4 days, 13 hours, and 8 minutes. The SL-7's are capable of carrying 1,096 containers at speeds up to 33 knots.

To make maximum use of the potential of these giant containerships, Sea-Land has been steadily developing a highly coordinated system of trade routes and feeder services. During the past year, the ports of Singapore; Piraeus, Greece; Aarhus, Denmark; and the British Colony of Bermuda were added to the company's network of service.

Also introduced during the first quarter of 1972 was the Sea-Land® Bridge, a system of water and rail transportation offering shippers shorter transit times and greater economy. This system, combining rail and water transportation, connects the Far East with the U. S. East Coast and the U. S. West Coast with Europe.

Direct container service from the U. S. Gulf Coast to Europe was started

Paul F. Richardson, President Michael R. McEvoy, Chairman
Sea-Land Service, Inc., Elizabeth, New Jersey

for the first time by Sea-Land through its Gulf-North Europe Division in late September. Ports-of-call include New Orleans, Louisiana; Houston, Texas; Rotterdam, The Netherlands; and Bremerhaven, West Germany.

Also during the year a new 232-acre terminal complex in Elizabeth, New Jersey, officially began operation. The terminal has 5,000 feet of berthing space and will be equipped with six high-speed cranes, a marine operations center, combination control and office building, and a 306,000-square-foot warehouse.

Additionally, Sea-Land has expanded its facilities at other locations, including new installations at Long Beach, California; Rio Haina, the Dominican Republic; and Kodiak, Alaska. Work is progressing on the new Sea-Land facility at Hong Kong, with completion scheduled for mid-1973.

Increased container volume has been made possible in the Alaskan, Puerto Rican, and Gulf Coast trade routes by the addition of more or larger vessels in these services.

The expansion of services and facilities during 1972 has significantly enhanced Sea-Land's position in world trade and the company's ability to compete with foreign lines.

FOODS and BEVERAGES

RJR Foods, Inc., markets a variety of convenience foods and beverages, including one of the country's leading fruit punches, **Hawaiian Punch**; the best-selling Oriental food brand, **Chun King**; and the top frozen Mexican food brand, **Patio**. Other top-quality RJR Foods products are **Vermont Maid** syrups, **Brer Rabbit** molasses and syrups, **College Inn** foods, **My*T*Fine** desserts, **Filler** snacks, and **Davis** baking powder.

The rapid evolution of RJR Foods, Inc., from a group of diverse brand name products obtained through acquisition to a well-organized and cohesive food and beverage company continued during 1972 with sales brought to record levels.

Brand performance was good across the board during the year. The **Hawaiian Punch** beverages—already among the leaders in the fruit drink category—improved their market position, and **Chun King**'s skillet dinners—the pioneer in the field—exceeded expectations and captured substantial volume in the convenience dinner market.

S. A. Angotti, Chairman
RJR Foods, Inc., Winston-Salem, North Carolina

At the end of the year, studies were completed which will enable RJR Foods to build a larger position in the nation's expanding food and beverage markets. Other product development activity during 1972 sought high-quality lines that will complement the company's already popular **Chun King** Oriental-style and **Patio** Mexican-style ethnic foods.

Plans were completed during the year and the initial steps taken to move RJR Foods headquarters to Winston-Salem from New York City. This relocation is incidental to the realignment of its operations accomplished in 1972. The company's new organizational structure was designed to provide a firmer base for growth as it looks forward to a still larger volume in the nation's expanding food and beverage industry.

RJR Archer, Inc., again in 1972 proved its ability to cope with erratic market conditions and, by offering superior service to its customers, was able to post record sales and profits for the year.

Typical of Archer's ability to adjust to meet changes in the market place was the performance of the Metals Division, which met its annual objective despite continued price cutting in the industry and the fact that one of its customers suffered a prolonged strike.

The Packaging Division continued to increase its production capabilities during the year with the addition of a new five-color rotogravure press. The new press along with existing equipment enabled the division to meet the increased requirements for production of printed hosiery, bacon, margarine, and cigarette cartons.

One of the major events of 1972 for RJR Archer was the opening of a new Consumer Products Division production facility at Biola, California. The new plant produces a fine line of gift wrap material and accessories and serves as a warehouse and distributing plant for the Western market. Plans were completed during 1972 to add household foil production at the Biola site in 1973. The household foil production capacity of the Division's plant at Greeneville, Tennessee, was increased during the year with the installation of new equipment.

The output of vinyl film wrap by the Filmco Division's domestic and international operations was up considerably during the year due to the installation of an additional extruder at both the Aurora, Ohio, and Sedgefield, England, plants.

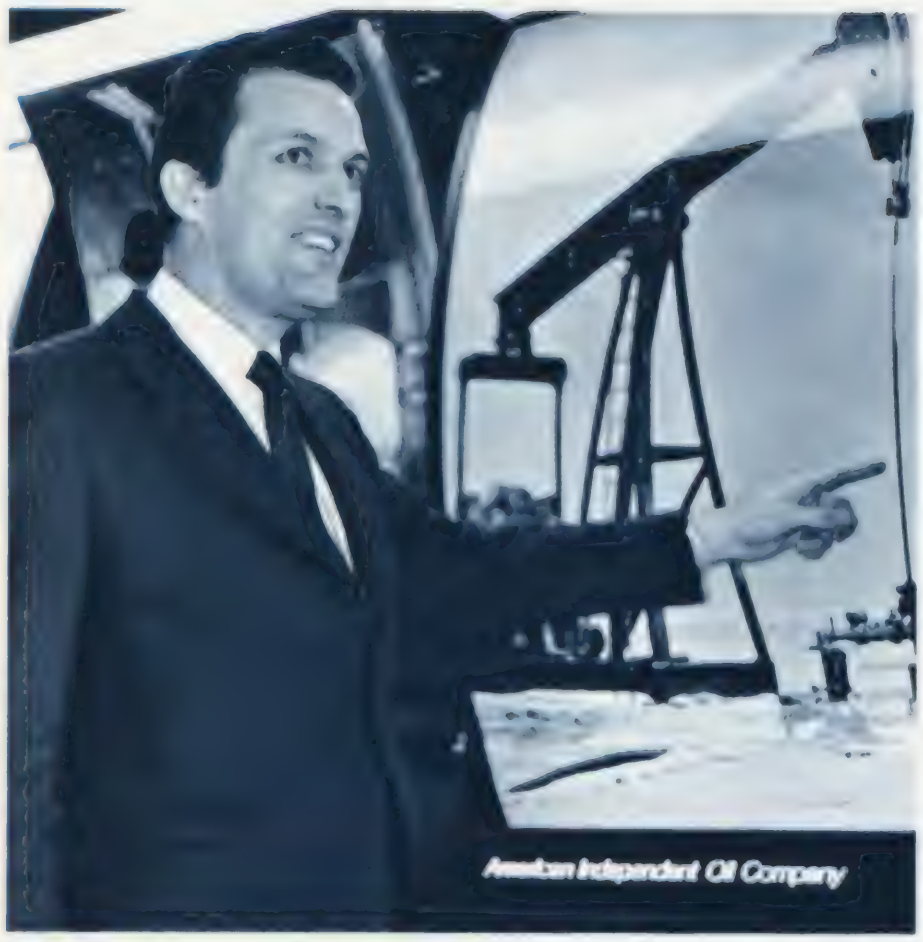
W. Bradley Blair, Chairman
RJR Archer, Inc.
Winston-Salem, North Carolina

ALUMINUM PRODUCTS and PACKAGING

RJR Archer, Inc., produces specialty foil and sheet aluminum products, flexible and semi-rigid packaging materials, florist foil materials, gift wrapping materials and accessories, and protective vinyl wrap.

PETROLEUM

American Independent Oil Company is an independent oil producer and refiner. Its principal sales are to other oil companies. Aminoil's primary sources of oil are in the Partitioned Zone between Kuwait and Saudi Arabia and in Iran.



J. B. Sunderland, President
American Independent Oil Company
New York, New York

American Independent Oil Company (Aminoil) reported increased sales for 1972 as demand for petroleum continued to expand at a high rate in world markets.

It was a year of continual negotiations, in which the host countries constantly pressed for more income. In Kuwait an agreement in principle was reached with the government regarding all pending major issues. At year-end it was anticipated that an agreement would be signed in 1973. (Aminoil's primary source of oil is in the Partitioned Zone between Kuwait and Saudi Arabia.)

The operation of Aminoil's desulfurization plant has continued to improve. The projected shortage of energy in the United States and the rest of the world appears to make the long-range demand for Aminoil's desulfurized oil attractive.

In Iran (Aminoil's second largest source of petroleum), negotiations are continuing between the Iranian government and the Iranian consortium. Aminoil holds a small share in the consortium, whose output is good-quality oil. The volume of production of this oil continues to grow.

Aminoil's future in Ecuador is indefinite because of unresolved differences between Aminoil and the government with respect to a decree issued during the year proposing retroactive treatment of the oil industry.

In the areas offshore Indonesia no drilling was done in 1972. Aminoil's geological interpretations warrant further exploration there, and additional seismic work was carried out in anticipation of the resumption of drilling in 1973, depending on equipment availability.

It seems clear that the pressure by the oil-producing countries on the oil-consuming countries for larger revenues will continue. It is also apparent that the oil companies which have brought the two groups together in the past are the best qualified to continue to do so. Aminoil looks forward to profitable participation in serving the industrial world's paramount need for petroleum.

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R.J.Reynolds Industries, Inc.

Registrar

MANUFACTURERS HANOVER TRUST COMPANY
Corporate Trust Division
4 New York Plaza
New York, New York 10015

Transfer Agents

THE CHASE MANHATTAN BANK, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

FIRST JERSEY NATIONAL BANK
1 Exchange Place
Jersey City, New Jersey 07303

Stockholder Inquiries

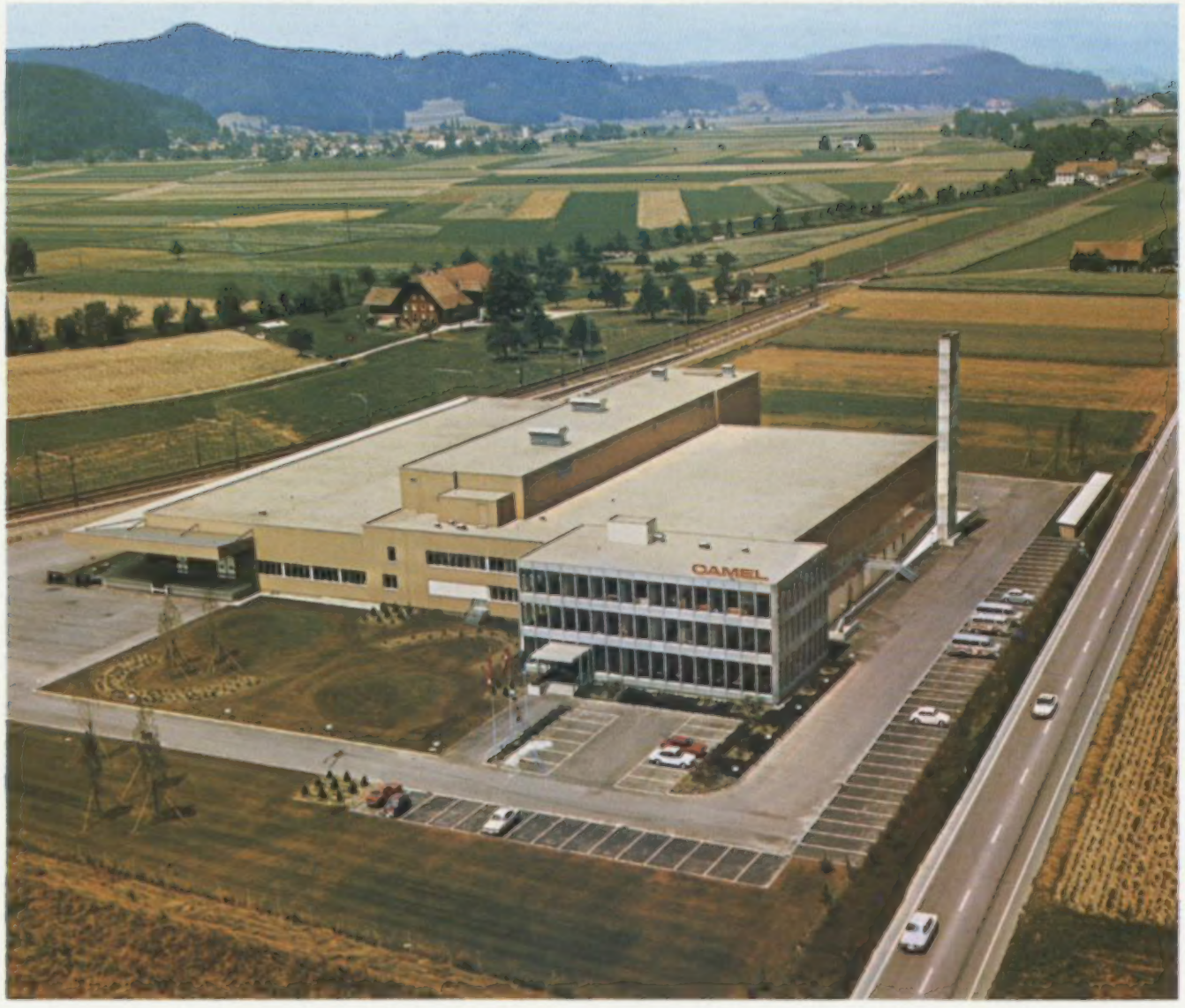
Communications concerning transfer requirements and lost certificates should be directed to either Transfer Agent. Communications concerning dividends and change of address should be directed to R. J. Reynolds Industries, Inc., Stockholder Records Department, Box 2959, Winston-Salem, North Carolina 27102.

Notice of Annual Meeting

The Annual Meeting of the Company's stockholders will be held on April 25, 1973 in the Gold Ballroom of the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware, at 2:00 p.m., EST. A formal notice of the meeting, together with Proxy Statement and Proxy, will be mailed to stockholders of record at the close of business February 27, 1973.

Reynolds Tobacco's leading menthol brand.

Vantage packaging line.



Camel, Camel Filter, *Reyno,* and *Winston* are produced at the new Dagmersellen, Switzerland, plant of R. J. Reynolds Tobacco International.

The Winston 500 NASCAR stock car race.

Doral-NASTAR amateur skiing competition.

Product testing by RJR Foods' Product Development staff.

Laminating foil and paper together in RJR Archer's Packaging Division.

Packaging bows for RJR Archer's Consumer Products Division.

Unloading containers at Sea-Land's Elizabeth, N. J., terminal.

At RJR Foods kitchens, experts follow package directions to check for clarity.

This desulfurizer in Kuwait has removed a bright yellow mountain of sulfur from Aminoil's crude oil, greatly increasing the marketability of the product.

RJR

R.J.Reynolds Industries, Inc.

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Atlanta, Ga.

Annual Report 1972

RJR

R.J.Reynolds Industries, Inc.

Winston-Salem, N.C. 27102